

MARICOPA COUNTY BOARD OF SUPERVISORS MINUTE BOOK

**SPECIAL SESSION
May 5, 2004**

The Board of Supervisors of Maricopa County, Arizona convened in Special Session at 1:00 P.M., May 5, 2004, in the Supervisors' Conference Room, 301 W. Jefferson Phoenix, Arizona, with the following members present: Andrew Kunasek, Chairman, District 3; Fulton Brock, District 1, Don Stapley, District 2, Max W. Wilson, District 4, and Mary Rose Wilcox, District 5. Also present: Fran McCarroll, Clerk of the Board, Shirley Million, Administrative Coordinator, David Smith, County Administrative Officer and Paul Golab, Deputy County Attorney.

MIHS STRATEGY

Presentation regarding MIHS strategy: (a) health plan claims payable and financial reporting; (b) health plan claims payment system; and (c) delivery system performance improvement project.

David Smith referenced the findings of the Financial Resource Group (FRG) who has completed a 45-day assessment that confirms OMB's concerns regarding the financial performance of the MIHS health plans and particularly the SeniorSelect plan. Keeping in mind the County's determination for a "clean handoff" to the directors of the new health district who will be elected next November, the public will be informed of the FRG findings through public meetings beginning tomorrow. Media representatives will attend meetings later today for an explanation of this complex situation. He indicated that the monetary loss is within the financial wherewithal of the County to handle and he expects there will be no need to cut programs or personnel. (ADM2100)

Jim Chisolm, FRG health plan expert, said that SeniorSelect has been dwindling and the operational and financial concerns are becoming a drain to all of the Health Plan System. OAO, the health plans' claims payment system, is the biggest problem, having never functioned properly. Since its implementation in the fall of 2002 it has done none of the things it was designed to accomplish, which were as follows:

- Pay claims accurately and timely
- File accurate encounter data with AHCCCS
- File accurate reinsurance data with AHCCCS
- Provide data to facilitate medical management
- Provide sufficient accurate data to calculate IBNR

"Incurred But Not Reported" (IBNR) refers to liabilities that a health plan estimates its members are currently incurring but which have not yet been billed by providers. Tom Manos, Chief Financial Officer, said the estimates are based on prior experience with like cases but because of the inadequacies of the OAO system there is no good data to reference for the past 18 months. This makes accurate estimates very difficult to ascertain. The MIHS IBNR has been audited annually by the state Auditor General who did not question the adequacy of the reported liability. However, County Administration eventually did take notice of several warning signals, which led to their questioning the accuracy of reported liabilities. Among these was a declining cash position while reported net income was level. These would ordinarily run parallel. The cash position of MIHS is reported to Mr. Manos each morning and is an absolute on which other determinations are made. From July 2000 to April 2003 profitability was reportedly at a flat, break-even point and at the same time cash dropped rapidly. Profitability amounts that were being regularly reported to the Board by MIHS management began to be scrutinized more closely.

Supervisor Wilson asked about possible double payments that have reportedly been made to vendors. Mr. Manos responded that it is a "given" that some people were paid more than once because OAO was not working properly. He said that there are now 500,000 claims that are "hung up in the system" and it is

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unknown how many are duplicates and how many are current. Mr. Manos said that another warning sign was that the IBNR dropped from \$51 million to \$39 million over a three year period. He said that as long as there is growth in the health plans the IBNR should grow similarly. Verification should have been available through OAO but nothing could be verified through that failed system.

Mr. Manos explained that because of the uncertainty caused by the warning signs and the inability to get accurate estimates a recommendation was made by OMB to set aside \$53 million, and the Board adopted this. It was estimated that this reserve would not be needed until after OAO was "fixed" and a better estimate of the IBNR could be determined. However, it was subsequently determined that OAO was "unfixable" and any other historical data source provided information that was too old to use. At this time an outside actuary was consulted.

Chairman Kunasek asked how the OAO inadequacies were overlooked when it was purchased and why it had been chosen. Mr. Manos acknowledged, "We mistakenly bought a product that did not satisfy our needs and we did a very poor job of implementing it. There was very little testing of the new system and no parallel runs between the two systems. We simply shut off the old system one day and started the new system the next day." He admitted, "I think we probably violated just about every good practice there is in implementing a payable system."

Leo Kessler, Deloitte Touche, reported on their investigation of the IBNR issue in which they used three different techniques. First, they observed the timing in which claims were paid and an estimation of when they would again come due. Second, they looked at the September 2002 data and brought it forward as total expenditures for FY 03, to date, and they also used trend factors. They deducted known amounts that had been paid against claims. The third approach was to go to other clients to compare the MIHS IBNR with that from a well-run, working system.

Mr. Manos said the Deloitte findings established a range of \$82 million to \$129 million as the possible IBNR. In March 2004 the IBNR was \$45 million, which indicates that an increase of \$37.5 million would be needed to get it to the bottom of that range. OMB asked FRG and a representative from Ernst and Young to look at the investigation done by Deloitte and render an opinion and it was found to be a solid methodology to apply to determine an estimate.

Mr. Manos further explained that increasing the liability by \$37.5 million would cause the expenses on the income statement to also be adjusted by the same amount. He said the basic explanation was that "We made \$37.5 million less in the health plans than we thought, or conversely, we lost \$37.5 million more than we thought we lost." Year-to-date to March 31, 2004, additional losses to the MIHS net income included \$13,271,000 to AHCCCS, \$28,878,000 to Long Term Care and \$10,320,000 to SeniorSelect. However, Jim Chisolm said, "If the sanctions are removed from the IBNR there is a loss of \$11 million for the month and \$10 million of this is from SeniorSelect." The net income was reported as a minus \$52,469,000. There was also a sanction from AHCCCS of \$3.7, which was not included in the total.

Mr. Chisolm continued by suggesting solutions, some of which are already being implemented. He said that since OAO cannot be fixed they are in the final selection process of choosing a Third Party Administrator (TPA) to manage claims beginning July 1, 2004, and are down to two vendors. Alternative payment strategies will be provided for vendors, including roster billing for nursing homes. There are no MIHS systems that actually support good medical management and this is slowly being brought under control along with a continuing analysis to correct the accrual amounts for IBNR. He said that SeniorSelect losses are an issue that must soon be addressed.

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With regards to the transfer of HealthSelect to Cigna management as a TPA, David Smith reported that as of January 1, 2004, bills are being readily paid through the Cigna systems and the changeover seems to be working well. However, there is still a 15-month prior backlog to address with vendors for HealthSelect in addition to the other three plans. With regards to OAO, Mr. Smith said there are really two problems – the IBNR continuous accounting estimate of monies that need to be set aside based on the size of the plan and the size of the liabilities to vendors serving the plans' 75,000 clients. In retrospect, he said that it is now clear that the IBNR numbers have not tracked correctly for years, possibly going back to the time when Cambio was in charge. "We didn't have a good reason to challenge the numbers when we were getting clean audit reports and the former hospital management kept telling us, quite vehemently, that the numbers were correct." He said that the financial "reckoning" would have been necessary at some point in time even without OAO."

Tom Manos explained that Health Plans are "a very difficult business to begin with, but if you don't have the right management tools, they are impossible. He added that many things that other health plans use to minimize their costs were not available to MIHS because of the problems with OAO.

Supervisor Wilcox said that during last October and November the Board was continuously told that "OAO was righting itself. Was that not true? Were there no checks and balances?"

Mr. Manos replied that is a question everyone has thought a lot about and it is a highly technical question. He said, "Remember that we had very well paid experts who were telling us that the problems with OAO could be fixed and that success wasn't that far off." The other thing that made it difficult to "pull the plug on OAO" was that there had already been a significant amount of money invested in the program, close to \$4 million, and it was difficult to walk away from that kind of investment when the experts were telling you that success could still happen. The only alternative to OAO would have been to get a TPA to start processing the claims and that is a 4-5 month process. He said that even when OMB was being told that OAO could be fixed they had started looking for a TPA "as a backstop."

David Smith said several different sets of experts had looked at OAO and had reported that it was fixable. In addition, it was learned that John's Hopkins Medical Center and Phoenix Health Systems had also had problems when they initially installed OAO but had managed to fix them. This information played into the decisions to keep allowing additional time to fix OAO.

Mr. Manos said that FRG has since given a very clear message that managing health plans is a very different "skill-set" from managing a delivery system. FRG has extensive health plan management experience, including technology and medical plan management, and these are now in place at MIHS.

Ted Shaw, FRG and current CEO of MIHS, said they do have many years experience in managing health plans and he believes the problems at MIHS can be brought under control and begin to move in the right direction. The delivery system at MIHS has new leadership that is improving performance of the health system and are also working with OMB to recast the budget projections for the end of this year as well as for next year. A Chief Nurse Executive has been hired and will arrive next week "to lead us through the JACHO recertification process this fall." He added that making necessary changes to satisfy JACHO while still running the hospital efficiently would be one of the most challenging aspects of the turn-around.

Mr. Shaw said they are also reviewing supply chain and procurement systems and have found improvement opportunities in the areas of cost and materials. He warned that in the current delivery

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system budget over 16% of expenses are in the labor/human resources area and there are substantial challenges there because of the "huge amount of agency travel nurses in our hospital, and this is never as good as having your own employees." He said that there was historical information in the delivery system but none of it was what he termed, "good information management no decision support systems." When this is rectified, "We can hold people accountable for specific results and specific performance improvement areas." He said that increased emphasis is being given to improving revenue by capturing all charges for services rendered.

Mr. Shaw said the good news includes the dedicated employees and physicians at MIHS who provide excellent care, which is often very "tough" when you consider the physical conditions at the hospital. "But they do a good job of taking care of our patients and that's certainly the bottom line for me." He estimated an excess of \$5 million in delivery system savings through supply chain enhancement in the next fiscal year and said cash acceleration was already showing strong results after FRG's first two months.

Supervisor Stapley asked if FRG is going after any federal money for reimbursement on undocumented health care. Mr. Shaw said that was part of the "revenue cycle bucket" and that Senator Kyl's bill would have a major impact in several areas. He said they would also look at grants and other fund raising opportunities, adding, "We are lucky to have the 3rd largest burn center in the United States and they do a wonderful job of taking care of patients. We want to get maximum reimbursement for them. We have many wonderful stories we can tell about what they are doing." These can be leveraged to "grow this business" – which in the long run is easier and better than having to cut areas and reduce profitability. Mr. Shaw said they hope to be able to go back as far as three years to recapture an accurate accounting of duplicate payments and lost collections. He added that there are many areas to investigate.

IMPACT OF THE MIHS FINANCIAL CONDITION ON THE OVERALL COUNTY 2003-04 FORECAST AND 2004-05 BUDGET PRESENTATION

Sandi Wilson told the Board that although the above report may have painted "a gloomy forecast there is a silver lining." She indicated that the silver lining regarding the budget was that the Board of Supervisors had implemented a plan for the current MIHS situation. She added, "The Board's policy and guideline has been to be conservative when we do budgets and that has served us well over the years." She said that the Board had made a couple of very important decisions that impact this issue. The first was that "we chose not to levy the new district property tax of \$40 million." Even so, she indicated that the County would be able to provide a clean hand-off to the new district. She said this would be possible because the Board's funding approach is always one of fiscal conservatism, pay-as-you-go financing, and reserving funds for worst-case scenarios. (ADM2100)

In giving a short history, Ms. Wilson said that the concerns regarding MIHS financials really started in September of 2001 when Internal Audit highlighted their diminished cash position. In the fall of 2001, scrutiny intensified on MIHS spending proposals and some of the capital outlay was stopped. In February 2002, Deloitte was asked to forecast the MIHS losses and in March 2002, a special study session was held by the Board with MIHS, Internal Audit, OMB and Deloitte, to discuss the financial trends and impacts. Interestingly, Deloitte estimated at that time that the FY 2004 losses would be \$56.4 million, which is just about where it is. In June 2002, the Board adopted the 2002-03 budget which included the aforementioned \$53 million reserve in the General Fund for possible MIHS losses. In October 2002 the OAO system was implemented. In December 2002 the Board appointed a Citizen's Task Force to review the issues at MIHS and suggest solutions. In the spring of 2003 OMB told the Task Force of the financial concerns and the Task Force's recommendation was to form the Special Health Care District. In

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September 2003 Deloitte was asked to oversee MIHS financial operations. The voters approved the creation of the Special Health Care District in November 2003. In November and December 2003, there were three public Board of Supervisors' meetings at which the MIHS Management team reiterated their assurances to the Board that OAO problems were being resolved and the system could be fixed. In February 2004 FRG was retained to take over the management of MIHS. In March and April 2004 FRG provided a financial perspective on MIHS and Matt Nelson, FRG CFO, began work with OMB to re-cast financial reports and produce forecasts for the FY 2004-05 budget. Ms. Wilson stated that the final budget from FRG will be submitted on May 15, 2004, and following this the County Budget can be completed.

~ Supervisor Brock left the meeting ~

Ms. Wilson again referred to the \$53 million reserve in the General Fund to cover MIHS losses, saying that none of this was used in 2002 or 2003. Because of the uncertainty at MIHS this was carried over into the FY 2003-04 budget and \$2.4 million was applied earlier this year to the HealthSelect issue, leaving a balance of \$50.6 million.

Matt Nelson spoke on the MIHS financial status to date and the projected status by year's end. He indicated that work is being done towards re-establishing a budget, working with all department and management heads to explore the information they have, but he said that they "keep finding new things to deal with almost every day – that are both good and bad." He indicated that the numbers presented to the Board today "are very bad right now but the goal for next year is to come forward with a budget that is reasonable."

In response to a question from Chairman Kunasek, Sandi Wilson said, "The SeniorSelect issue has been going on for a number of years and this is probably the third year that we've had concerns about that program." She indicated that "part of the SeniorSelect issue is from IBNR but we saw significant losses throughout the year in SeniorSelect." She said FRG has reported that the other two plans (AHCCCS and Long Term Care) should be able to eventually turn a profit under better medical management.

Chris Bradley discussed the projected year end fund balances for the different systems, with the delivery system being the only one with a positive balance (estimated at \$19,628,364). The negative balances of AHCCCS, Long Term Care and SeniorSelect are estimated to total \$43,540,689. Deducting this from the \$50.6 remainder in the MIHS reserve fund, the remaining reserve fund total would be \$7,059,311 at year end.

Supervisor Stapley asked if there would be reserve funds to hand over to the new district.

Ms. Wilson said it was really too early to give a good projection on that but there would be several options depending on how the actual transaction is done.

Chris Bradley continued by giving the 2004-05 Budget Subsidies with a projected total of \$15,911,101 (General Fund reserve), which includes projected contingencies. FY 2004-05 General Fund Reserves total \$45 million, covering the difference between the low and high IBNR estimates. In a continuation of the Board's MIHS conservative budgeting policies an estimated 2004-05 funding requirement would total \$60,911,101. This amount would be covered by combining the \$7,059,311 (reserve carry-forward); with savings derived from deferring two major items, the new County Administration Building (\$40 million) and the new County financial system (\$18 million) to a later time. These funding amounts total \$65,059,311.

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The revised budget calendar for the summer of 2004 is as follows:

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| MIHS Budget Submission: | May 15 |
| Tentative Adoption: | June 21 |
| Final Adoption: | July 12 |
| Tax Levy: | August 16 |

In response to a question from Supervisor Stapley, Ms. Wilson said it has been estimated that recovering from the losses caused by the failed OAO system could take 18 to 24 months.

Supervisor Stapley commented that the Board had become aware of the negative financials at MIHS over a period of time but he feared the public could be alarmed when the information from FRG is released. However, he expressed confidence that "we can move forward and clean up what is the result of a lot of difficulties that nobody foresaw. We knew we had problems when we appointed the Task Force but not the extent of those problems until very recently."

Chairman Kunasek agreed and added, "Everyone has been taken aback by these numbers but the fundamental integrity of our policies will take us through this." He said he hoped the announced candidates for the Special Hospital District Board, some of whom were present at the meeting, would have confidence that "the Board is doing all we can to correct this and produce a clean hand-off next January."

MEETING ADJOURNED

There being no further business to come before the Board, the meeting was adjourned.

Andrew Kunasek, Chairman of the Board

ATTEST:

Fran McCarroll, Clerk of the Board